

## Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 IO-13 ISO-00 AGRE-00 AID-05 CEA-01

CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 EPG-02

SP-02 STR-04 TRSE-00 LAB-04 SIL-01 OMB-01 PRS-01

USIA-06 PA-01 /071 W

-----261005Z 052125 /10

R 260945Z MAY 77

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 3179

INFO USMISSION EC BRUSSELS

USDEL MTN GENEVA

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E.O. 11652: N/A

TAGS: ETRD, EEC, FR

SUBJECT: RESTRUCTURING OF FRENCH FERTILIZER INDUSTRY

REF: (A) PARIS 651; (B) PARIS A2367 (SEPT 3, 1976)

PASS AGR ELECTRONICALLY.

1. SUMMARY: GOF HAS CLOSED FIRST CHAPTER OF RESTRUCTURING OF FRENCH FERTILIZER INDUSTRY ALONG PUBLIC VS PRIVATE LINES WITH ANNOUNCEMENT OF MERGER BETWEEN TWO STATE-CONTROLLED PRODUCERS, ENTREPRISE MINIERE ET CHIMIQUE (EMC) AND CDF - CHIMIE. MERGER LEAVES REMAINING, MAINLY PRIVATE, PRODUCERS WITH OPTION TO JOIN PUBLIC GROUPING AS MINORITY PARTNERS, SELL-OUT, OR ---AS GOF WOULD LIKE ---GROUP THEMSELVES TOGETHER IN SINGLE ORGANIZATION WITH SIZE AND MARKETING CAPABILITIES ON ORDER OF EMC-CDF-CHIMIE. END SUMMARY.

2. ON MAY 5, MINISTER OF INDUSTRY AND COMMERCE RENE MONORY ANNOUNCED MERGER OF TWO MAJOR STATE-OWNED FRENCH FERTILIZER PRODUCERS, ENTREPRISE MINIERE ET CHIMIQUE

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(EMC) AND CDF-CHIMIE. AT GOF BIDDING TWO FIRMS HAVE AGREED IN PRINCIPLE TO (1) TRANSFER OF EMC'S FERTILIZER DIVISION, SOCIETE AZOTE ET PRODUITS CHIMIQUES (APC) TO CDF-CHIMIE, TOGETHER WITH UNSPECIFIED AMOUNT OF CASH, AND (2) 35-PERCENT EQUITY PARTICIPATION BY EMC IN CDF-CHIMIE. IT IS REPORTED THAT EMC WILL RETAIN IMPORTANT MANAGEMENT RESPONSIBILITY IN MERGED FIRM, BUT

THIS IS PORBABLY BARGAINING CHIP WHICH GOF AND CDF-CHIMIE HAVE YET TO PLAY IN MERGER WHERE ON PAPER EMC WILL HAVE ONLY BLOCKING CONTROL.

3. EMC AND CDF-CHIMIE TOGETHER HAVE ANNUAL FERTILIZER SALES OVER \$400 MILLION AND ACCOUNT FOR 45 PERCENT OF NITROGEN FERTILIZERS AND 28 PERCENT OF MIXED FERTILIZERS SOLD IN FRANCE. GEORGRAPHICALLY, TWO FIRMS ARE COMPLEMENTARY, CDF-CHIMIE LOCATED AROUND CEREAL BELT AND APC ENTRENCHED IN LOWER SEINE BASIN AND SOUTHWEST. OF TWO FIRMS, EMC IS SOLE PRODUCER OF PHOSPHATE-POTASH (PK) MIXES AND CDF-CHIMIE IS SOLE PRODUCER OF AMMONIUM SULPHATE. MERGER WILL, HOWEVER, BRING TOGETHER TWO ESSENTIALLY NITROGEN-BASED COMPANIES WITH ATTENDANT DUPLICATION OF FACILITIES AND PERSONNEL. EACH COMPANY HAS ABOUT 600,000-700,000 TONS/YEAR AMMONIA CAPACITY.

4. LEFT IN LIMBO IS COOPERATIVE ARRANGEMENT SIGNED MARCH 1976 (REFAIR) BETWEEN EMC AND GARDINIER, PRIVATE FRENCH PRODUCER WITH SUBSTANTIAL U.S. PHOSPHATE MINE INVESTMENTS. ARRANGEMENT CREATED INTEGRATED, PLANT-TO-FARM FERTILIZER ORGANIZATION CALLED FERTILUNION, WITH GARDINIER RESPONSIBLE FOR COMMERCIALIZATION OF ALL PRODUCTION CHIEFLY BY SALES TO CAPTIVE AGRICULTURAL COOPERATIVE UGCAF-LAFAYETTE IN WHICH GARDINIER FAMILY HAS MINORITY INTEREST. GARDINIER HAS NEVER BEEN KEEN ON AFFILIATION WITH TWO-HEADED STATE SIDE OF INDUSTRY, CERTAINLY NOT ON GOF TERMS. REFTEL. GARDINIER IS MARKETING ORIENTED AND, ACCORDING TO ONE RELIABLE LIMITED OFFICIAL USE

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INDUSTRY SOURCE, REGARDS AS ANATHEMA THE PROSPECT OF WORKING AS MINORITY PARTNER IN EMC-CDF-CHIME ORGANIZATION, EVEN IF IT IS GOF DARLING. WITH PROSPECT OF NATIONALIZATION OF FERTILIZER INDUSTRY IF LEFT COMES TO POWER NEXT YEAR, GARDINIER MAY VIEW THIS AS RIGHT MOMENT TO SELL ITS VALUABLE FRENCH ASSETS AND ORGANIZATION TO EMC-CDF-CHIMIE AND BECOME AMERICAN COMPANY. (TWO-THIRDS OR MORE OF ITS FLORIDA PHOSPHATE PLANT PRODUCTION IS NOW SOLD UNDER LONG-TERM CONTRACT TO U.S. BUYERS).

5. GOF EFFORTS TO ALIGN PRIVATE SIDE OF FRENCH

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USIA-06 PA-01 /071 W  
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R 260945Z MAY 77  
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FERTILIZER INDUSTRY HAVE BEEN SO FAR UNSUCCESSFUL.  
LYNCHPIN OF EFFORT IS NOW-EXPIRED OFFER OF AMERICAN  
PHOSPHATE PRODUCER AGRICO TO SELL INTEREST IN  
AGRICO'S U.S. PHOSPHATE MINES IN EXCHANGE FOR 40  
PERCENT PARTICIPATION IN COMPAGNIE FRANCAISE DE  
L'AZOTE (COFAZ), IN WHICH GOF HAS MINORITY (BLOCKING)  
INTEREST BY WAY OF COMPAGNIE FRANCAISE DES PETROLES.  
(REFAIR). ALTHOUGH PLEASED AT PROSPECT OF LONG-TERM  
ACCESS TO AMERICAN PHOSPHATE RAW MATERIAL FOR SECOND  
FRENCH FIRM (GARDINIER HAS TWO U.S. MINES),GOF IS  
DISTURBED BY TROJAN HORSE ASPECT OF FIRST AMERICAN  
PARTICIPATION IN FRENCH FERTILIZER INDUSTRY. UNTIL  
NOW GOF HAS WITHHELD APPROVAL OF COFAZ-AGRICO DEAL  
AND MEANWHILE EMBARKED ON DESIGN TO MERGER OTHER  
PRIVATE FRENCH PRODUCERS WITH COFAZ. PRESS RUMOR  
DESCRIBES POSSIBLE AMALGAMATION OF THREE FRENCH  
PRODUCERS: COFAZ, SOCIETE GENERALE DES ENGRAIS  
(GESA), AND LA GRANDE PAROISSE, LEAVING AGRICO WITH  
20 PERCENT OR LESS OF SHARES (NOT EVEN BLOCKING IN-  
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TEREST). WHETHER EXPIRED OFFER OF AGRICO WILL BE RE-  
NEWED AND MODIFIED TO SUIT GOF PLAN IS AT BEST PROBLEM-  
ATIC.

6. COMMENT: ABOVE REFLECTS DIFFICULT COMPETITIVE

SITUATION OF FRENCH FERTILIZER INDUSTRY. FOR BOTH NITROGEN AND PHOSPHATE FERTILIZERS, FRANCE IS DEPENDENT ON OUT-SIDE RAW MATERIALS AND ENERGY. LAST SUMMER, LOW FARM INCOMES, DROUGHT, AND NUDGE OF HEAVY IMPORTS FROM U. S. AND EASTERN EUROPE SPURRED SHARP REACTION AMONG GOF INDUSTRY PLANNERS. FERTILIZER DOSSIER HAS SINCE TRAVELED THROUGHOUT GOF, INCLUDING PRIME MINISTER'S OFFICE, AND HEAVY-HANDED RESCUE PLAN OF MINISTRY OF INDUSTRY SEEMS TO HAVE RECEIVED GREEN LIGHT. WITH GOF KNEE-DEEP IN FERTILIZER AND AFTER RECENT EXPERIENCE WITH "AUTOMATIC" IMPORT VISA SYSTEM CUM "TEMPORARY" QUOTAS ON FRENCH IMPORTERS, U.S. FERTILIZER EXPORTERS, WE ARE TOLD CONFIDENTIALLY, HAVE WRITTEN OFF FRENCH MARKET AND ARE CONCENTRATING ON MARKETS ELSEWHERE. GAMMON

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## Message Attributes

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**Disposition Approved on Date:**  
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**Disposition Date:** 22 May 2009  
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**Office:** ACTION EB  
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**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
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**Page Count:** 4  
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**Previous Handling Restrictions:** n/a  
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**Review Withdrawn Fields:** n/a  
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**Status:** NATIVE  
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**To:** STATE  
**Type:** TE  
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